

United Stores Corporation

Report to Stockholders
Year Ending December 31, 1939

MRS
CORP. FILE

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OFFICERS

GEORGE K. MORROW, *Chairman of the Board*

ROBERT W. JAMESON, *President*

RANDOLPH CATLIN, *First Vice-President*

GEORGE WATTLEY, *Secretary and Treasurer*

BOARD OF DIRECTORS

RANDOLPH CATLIN

GEORGE K. MORROW

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ROBERT W. JAMESON

WALTER B. RYAN, JR.

THOMAS H. MCINNERNEY

EUGENE W. STETSON

GENERAL COUNSEL

SULLIVAN & CROMWELL.....New York, N. Y.

AUDITORS

PRICE, WATERHOUSE & Co.....New York, N. Y.

UNITED STORES CORPORATION

15 EXCHANGE PLACE
JERSEY CITY, N. J.

MARCH 15, 1940.

To the Stockholders of

UNITED STORES CORPORATION :

There are presented herewith the following financial statements of United Stores Corporation for the year ending December 31, 1939, with report of Messrs. Price, Waterhouse & Co. thereon :

Balance Sheet

Statement of Income and Expense

Statement of Surplus

For the information of the stockholders there are enclosed herewith copies of the Annual Report of McLellan Stores Company for the fiscal year ending January 31, 1940, and the Annual Report of McCrory Stores Corporation for the year ending December 31, 1939.

By order of the Board of Directors.

GEORGE K. MORROW,

Chairman.

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UNITED STORES BALANCE SHEET—

ASSETS

CURRENT ASSETS:

Cash in bank and on hand.....	\$ 58,075.42
Account receivable, at nominal amount.....	1.00

\$ 58,076.42
1.00

OFFICE FURNITURE AND FIXTURES, at nominal amount.....

INVESTMENTS:

At cost:

McCrorry Stores Corporation (Note 1)—	}	\$5,548,582.31
14,100 shares convertible 6% cumulative preferred stock, par \$100 (28.2% of total outstanding)		
396,138 shares common stock, par \$1 (40% of total out- standing)		
McLellan Stores Company (Note 1)—	}	4,521,099.39
8,322 shares 6% cumulative convertible preferred stock, par \$100 (27.74% of total outstanding)		
380,098½ shares common stock, par \$1 (51.84% of total outstanding)		

At valuation authorized by Board of Directors in 1933 plus cost
of subsequent purchases:

Tobacco Products Corporation of Delaware (Note 2)—	
20,844 shares of capital stock, par \$10 (63.23% of total outstanding)	624,100.25

10,693,781.95

NOTE 1—Quoted market prices at December 31, 1939:—

McCrorry Stores Corporation:

6% preferred stock.....	106⅞	bid—113	asked
Common stock		15½	

McLellan Stores Company:

6% preferred stock	97	bid—100	asked
Common stock		9	

NOTE 2—Tobacco Products Corporation of Delaware was dissolved on October 26, 1939 and is being liquidated by a receiver appointed by the Delaware Court of Chancery. On February 15, 1940 assets of the Corporation in the hands of the receiver consisted of cash in the amount of \$343,544, marketable securities having a value of \$31,275, and all of the stock of Tobacco Products Corporation of New Jersey; the claims filed by creditors totaled \$6,984. The value of the stock of Tobacco Products Corporation of New Jersey is contingent upon the amount of taxes which may be payable by that Corporation upon \$36,286,128.85 received from American Tobacco Company in commutation of a lease in January 1935. On June 7, 1937 the Treasury Department assessed \$4,967,890.40 as tax, penalty and interest against Tobacco Products Corporation of New Jersey and demanded and received, on account of the tax so claimed, that company's cash balance of \$725,638.27 which was its only asset. The Treasury Department has subsequently taken the position that certain inactive subsidiaries of Tobacco Products Corporation of New Jersey also realized a taxable gain upon the commutation of such lease, and that Tobacco Products Corporation of New Jersey is liable both for an alleged deficiency in its own income tax (asserted to be \$3,776,723.70 less the \$725,638.27 already received by the Treasury Department) and also as transferee, for alleged deficiencies in income tax of such inactive subsidiaries (asserted to be \$4,541,315.46), together with interest. The amount of and persons liable for payment of any such taxes have not been finally determined. See also Note 5.

\$10,751,859.37

CORPORATION
DECEMBER 31, 1939

CURRENT LIABILITIES:		LIABILITIES
Bank loan, payable on demand.....	\$ 300,000.00	
(Secured by 4,700 shares McCrory Stores Corporation 6% preferred stock and 1,450 shares McLellan Stores Company 6% preferred stock)		
Accounts payable	14,149.14	
Unclaimed dividends	2,633.10	
Reserve for taxes (Note 3)	123,000.00	
		\$ 439,782.24
CONTINGENT LIABILITIES (Note 5)		
CAPITAL STOCK AND CAPITAL SURPLUS:—		
Capital stock:		
\$6 cumulative convertible preferred stock, without par value, preferred over Class A and common as to \$115 per share plus accrued dividends on dissolution—(Note 4)		
Authorized—101,800 shares		
Outstanding—95,695 shares stated at \$25 per share.....	\$2,392,375.00	
Note—Preferred dividends are in arrears \$14.50 per share at December 31, 1939, or a total of \$1,387,577.50.		
Class A stock of \$5 par value, convertible, preferred over common as to \$4.20 per annum (cumulative to the extent earned in any fiscal year) and as to \$75 per share on dissolution (Note 4)		
Authorized—916,000 shares		
Outstanding—915,979 shares	4,579,895.00	
Common stock of 50¢ par value—		
Authorized—1,522,200 shares including 1,011,674 shares reserved for conversion of preferred and Class A stocks		
Outstanding, less 250 shares in treasury—		
504,146 shares	252,073.00	
Capital surplus, per statement attached.....	2,847,392.13	
		10,071,735.13
EARNED SURPLUS SINCE JANUARY 1, 1937, per statement attached.....		240,342.00
NOTE 3—The Federal income tax returns filed by United Stores Corporation for the years subsequent to 1935 are subject to final review by the Treasury Department. On the basis of the additional assessments proposed by the Department, it would appear that the reserve will prove to be some \$60,000 in excess of requirements for these years.		
NOTE 4—In the opinion of counsel neither the provisions of the company's certificate of incorporation nor the statutes of Delaware create restrictions upon surplus growing out of the fact that upon involuntary liquidation the preferences of the preferred and Class A stocks exceed their respective stated or par values.		
NOTE 5—On account of the alleged deficiencies in income tax of Tobacco Products Corporation of New Jersey and certain of its inactive subsidiaries, arising out of the commutation of the lease referred to in Note 2, the Treasury Department has advised that it proposes to assess against United Stores Corporation \$3,051,085.43, plus interest, as transferee of the assets of Tobacco Products Corporation of New Jersey, and \$4,541,315.46, plus interest, as indirect transferee of the assets of such inactive subsidiaries. The amount, if any, of any such alleged deficiencies has not been finally determined but, in the opinion of counsel, United Stores Corporation is not liable therefor.		
		<u>\$10,751,859.37</u>

UNITED STORES CORPORATION

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDING DECEMBER 31, 1939

Income :

Dividends received	\$758,728.80
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Expenses :

Stock transfer expense, including cost of termination of common stock voting trust agreement and new common stock cer- tificates	\$24,433.97
Expense of changing Class A and common stock to par value....	3,650.39
Franchise and capital stock taxes.....	8,701.02
Interest paid	6,083.36
Administrative, general and legal expenses.....	<u>74,661.12</u>
	117,529.86
	<u>\$641,198.94</u>
Provision for Federal income tax.....	<u>16,500.00</u>

Net income for the year ending December 31, 1939, carried to state- ment of surplus	<u><u>\$624,698.94</u></u>
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UNITED STORES CORPORATION

STATEMENT OF SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1939

Capital surplus:

Balance at December 31, 1938.....	\$2,874,455.86
<i>Deduct</i> —Excess of cost over stated value of 1,100 shares of \$6 cumulative convertible preferred stock purchased and retired....	\$27,067.00
Less—Excess of stated value over cost of scrip, representing 16 shares of common stock.....	3.27
	<u>27,063.73</u>
Capital surplus at December 31, 1939, per balance sheet.....	<u><u>\$2,847,392.13</u></u>

Earned surplus since January 1, 1937:

Balance at December 31, 1938.....	\$ 237,660.56
Net income for the year ending December 31, 1939, per statement attached.....	624,698.94
	<u>\$ 862,359.50</u>
<i>Deduct</i> —Dividend of \$6.50 per share paid in cash on December 28, 1939 on \$6 cumulative convertible preferred stock.....	622,017.50
	<u>622,017.50</u>
Earned surplus at December 31, 1939, per balance sheet.....	<u><u>\$ 240,342.00</u></u>

To the Board of Directors of

UNITED STORES CORPORATION:

We have examined the balance sheet of United Stores Corporation as at December 31, 1939 and the statements of income and expense and surplus for the year ending on that date. In connection therewith, we have examined accounting records of the company and other supporting evidence, have obtained confirmation of the cash in bank and of the securities pledged against bank loans at December 31, 1939, and have counted the other securities and cash.

In our opinion, except as to the questions mentioned in the balance sheet Notes 2 and 5 on which we are unable to express an opinion, the accompanying balance sheet and related statements of income and expense and surplus present fairly the position of United Stores Corporation at December 31, 1939 and the results of its operations for the year ending on that date, in conformity with accepted accounting principles applied on a basis consistent with that of the preceding year.

56 Pine Street,
New York, N. Y.
March 15, 1940.

PRICE, WATERHOUSE & Co.

